RESEARCH HIGHLIGHT

March 2009 Socio-economic Series 09-011

Preconditions Leading to Market Housing on Reserve

INTRODUCTION

According to 2006 Census data, homeownership rates in First Nation communities (31%) are generally much lower than those of off reserve Canadians (69%). The prevalence of homeownership varies from community to community; several First Nations are known to have widespread homeownership and others none at all. Multiple socio-economic and legal factors contribute to this considerably lower rate of homeownership in First Nation communities.

In general, household income is significantly lower in First Nation communities, which impacts the ability of individuals and families to purchase a home. Even when this is not a factor, the potential for households to become homeowners may be diminished by the lack of financial services and credit opportunities that are widely available off reserve. Housing loans are especially difficult to secure due to the legal status of reserve land under the *Indian Act*; these lands reserved for the use of First Nations cannot be alienated, thus hindering a lender's ability to seize a property should a borrower default. Consequently, alternative means of securing housing loans are required.

There are examples of First Nation communities that have achieved higher rates of homeownership and have been successful in improving access to financing for their membership. How they did it is not fully understood. Researching how these First Nations increased homeownership helps us to understand the process by which market-based housing may develop in First Nation communities.

Market-based housing is described as a situation where households pay for the full cost associated with purchasing or renting their housing. In regards to homeownership, this generally requires that households obtain loans from lenders and results in ownership of their properties. The movement towards market-based housing and homeownership contributes to new housing construction in First Nation communities and helps alleviate overcrowding.

This research focused on the development of market-based housing and homeownership and studied the process of creating new housing options for members of eight First Nation communities.

RESEARCH OBJECTIVES

This research project studied eight Canadian First Nations that are seen as leaders in their pursuit of homeownership and market-based housing. The three main objectives of the research were to:

- study the individual experience of participating First Nations and identify preconditions for market-based housing and homeownership in these cases;
- identify practices for developing successful homeownership options that were developed by the First Nation communities participating in the research;
- articulate the study findings into a framework for First Nations to develop market-based housing strategies and to increase homeownership.

METHODOLOGY

The eight Canadian communities studied were selected based on their innovative approaches to promoting homeownership and developing support programs. Other considerations for their selection included regional representation and the location of communities (rural, urban and remote). Information on participating First Nations is provided in *Appendix A*.

The housing managers of the eight participating communities acted as local facilitators and assisted the researcher in securing access to key informants and archival documentation. Data was generated from a minimum of six interviews in each community which included community leaders (chiefs, councilors and elders), housing professionals and home occupants. Other data collected originated from administrative documents and records provided by the participating First Nations.

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The data collected during site visits was analyzed with the objective of determining particular trends, community circumstances, events and pressures, demographic and economic characteristics and practices that led to homeownership in the communities. Based on this analysis, conclusions were reached pertaining to success factors and their inter-relationships, which have been identified as preconditions for the development of homeownership in these communities.

LIMITATIONS

The research was limited to eight communities. While care was taken to select various locations and community sizes, the limited sample increased the influence of individual First Nations in the analysis. It is possible that a larger study may have found that other First Nations describe or experience the preconditions differently than the sample chosen. The selection and number of the interview participants may also have influenced the study results. The findings may have been different if a greater number of interviews were conducted in each community, and other preconditions might have been identified as a result. Finally, as the research strategy is based on a limited number of case studies, this research was not designed to allow for generalizations beyond the sample group.

FINDINGS

Preconditions Leading to Market-Based Housing on Reserve

The community participants and the researcher identified 11 preconditions (Table 1) that led to successful development and implementation of homeownership programs. Each community identified a different combination of the 11 preconditions according to their experience in achieving homeownership and market-based housing. While as few as two or three preconditions were identified in some communities, up to nine existed in others.

Table 1 Preconditions leading to market housing in First Nation communities

Economic Development and Employment Opportunities – Healthy First Nation economies enabling business development and employment opportunities that provide members with income stability.

Leadership Support and Commitment – Support and commitment provided by Chief and Council for the development of homeownership options and access to financing.

Community Involvement and Education – Ability and opportunity for First Nation members to express their needs and voice their concerns with: respect to homeownership in their community, facilitated by the provision of educational material and resources on homeownership and housing finance.

Trained Housing Manager – Housing managers trained in construction, property management, accounting and areas specific to developing and managing housing in First Nation communities.

Certified Finance Department Staff – First Nation Finance personnel certified in finance and accounting.

Skilled Local Trades Workers – Availability in the community of skilled labour, such as carpenters, electricians and plumbers.

Comprehensive Housing Policies and Capacity for Enforcement – Policies covering a wide array of housing issues and providing ease of interpretation for developing program guidelines and for responding to emerging situations and; capacity to effectively implement and enforce policies to maintain their integrity.

Lender Security – Assurance that a lender has recourse in the event of loan default.

Availability of and Accessibility to Financing – Opportunity to obtain financing from lenders and funding programs.

Infrastructure Financing – Financing for infrastructure and lot servicing that allows for the development of privately owned housing.

Homeownership Options for Different Socio-Economic Groups – Homeownership programs that cater to members with different social and economic circumstances (e.g.: income levels, family size, special needs, etc.).

Diagram 1 Model for Increasing Homeownership Options for Different Socio-Economic Groups

Building Blocks to Market-Based Housing in First Nation Communities

While there are several possible ways to increase homeownership and market-based housing in First Nations, a general pattern emerged in the research. This pattern is represented in Diagram 1 and combines all the preconditions identified by the research. This synthesis provides a framework to discuss the research findings and is not a roadmap that a First Nation would necessarily have to follow in order to achieve higher rates of homeownership.

Economic development and employment opportunities enable higher rates of homeownership since individuals who are gainfully employed are better positioned to afford their housing costs as well as qualify for housing loans from financial institutions. To some extent, this in turn supports the capacity development of a community, as an increase in housing construction contributes to the development of a local labour force. All eight communities participating in this research demonstrated their active engagement in having developed their economy and creating employment for their membership. Through their involvement in natural resources, tourism, services to business or retail activities, these First Nations were able to achieve employment outcomes above the national average.

The Millbrook First Nation has been particularly proactive in its economic development pursuits. Major accomplishments include a company offering consulting services in web technology and a joint venture with a private sector company that created a commercial park hosting food and entertainment businesses. Some of the proceeds from these ventures are used to fund the homeownership program offered in this community.

First Nation **leadership support and commitment**, coupled with **community involvement and education**, act as a foundation for First Nations pursuing homeownership options. Leadership support and commitment facilitate community involvement and education and conversely, the communities influence the level of support and commitment demonstrated by Chief and Council. These preconditions promote the development of a transparent governance system, and drive the growth of human capital and governance.

For example, during the development of its rent-to-own program, the Council of the Blood Tribe First Nation provided strong and sustained support to the housing director in approving budgets, plans, and loan guarantee applications. The new program was communicated through press releases to the community via the local newspaper, radio station and posters, flyers and other notices to promote the new housing initiative.

Several participating First Nations developed certain aspects of successful homeownership programs at little cost. To strengthen their governance, these First Nations benefited from a **comprehensive housing policy**. Adjustments were required to address changes in community needs and circumstances as well as gaps in administration and management practices. For housing policies to be effective, **enforcement capacity** also had to be developed, as well as fostering an understanding and respect within communities as to the policies and their objectives. In turn, this has promoted fair and equitable decisions with respect to the administration of homeownership programs and has assisted in holding decision makers accountable.

For example, one of the key elements of success for Williams Lake First Nation is the level of detail of its housing policy developed prior to implementing the homeownership program. The policy is comprised of clear guidelines, requirements and processes that must be followed by all members wishing to access the homeownership program. The policy includes specific information with respect to program eligibility and allocation of financial assistance, individual land titles, loan guarantees and repossession, and maintenance and insurance requirements. This policy also articulates the roles and responsibilities of the various First Nation departments involved in the management and administration of the homeownership program, which contribute to its effective delivery.

One important research conclusion regarding policy development for homeownership options

- Although homeownership programs can be successfully implemented in the absence of a comprehensive and enforceable policy, successful homeownership programs may not be sustained without such policies and sufficient capacity for their enforcement.

Trained housing managers and certified financial officers represent the human capital required to develop, implement and manage homeownership programs and innovative market-based housing options. Greater knowledge and training contribute to creating synergies and efficiencies between and within these functions, as well as promoting knowledge transfer. Trained housing professionals and financial officers have the skills and knowledge to be proactive in the delivery and development of homeownership programs, and often have a role to play in ensuring construction projects are planned appropriately and delivered within budget and on time.

The Constance Lake First Nation identified the availability of a housing manager who is well versed in housing issues, housing management and housing development processes as a significant success factor with respect to implementing and sustaining the homeownership program offered in the community. In the Miawpukek First Nation, it was stated that the housing and property management training obtained by the housing manager has enabled more efficient delivery of the homeownership program. The Whitecap Dakota Sioux recognize that financial management is critical to the delivery of their homeownership program and hire their staff solely on the principles of experience, merit and knowledge. The housing managers in the Opaskwayak Cree Nation, Miawpukek First Nation and Eagle Village First Nation all noted that having access to **skilled local trades workers** was key to the development and success of their homeownership initiatives and contributed to keeping costs low.

Capacity development is the process required for developing and strengthening the skills and knowledge of a First Nation government and labour force. With respect to housing, capacity development impacts positively on a community's ability to build, maintain and manage key components of its housing.

Strengthening the "governance" and "human capital" pillars in Diagram 1 enables a First Nation to move towards market-based housing and deliver programs, making it possible for households to become homeowners.

Providing **lender security** to financial institutions is rarely an option; lenders will generally only provide housing loans if there is an instrument guaranteeing access to assets covering the value of these loans. This research showed that in the eight First Nations studied, the First Nation itself acted as the ultimate guarantor to households for housing loans issued by financial institutions.

However, one of the First Nations studied, Whitecap Dakota Sioux First Nation, has innovated in this area. It has completed the process to designate land under the *First Nation Land Management Act*, and has developed a different approach to providing lender security that places all the financial liability on individual borrowers. Private lenders have requested First Nation members to incorporate as a non-First Nation legal entity when they wish to obtain a loan. Once this occurs, the newly formed entity is provided by the First Nation with a ninety-nine year lease on a portion of the designated land, which is in turn held as collateral by the private lender. In the event of mortgage default, the private lender retains control of the lease and is able to sell the house to another First Nation member if that member is approved by Chief and Council.

The **availability and accessibility of financing**, both for housing construction and infrastructure development, is a significant, if not universal, precondition for First Nations to offer homeownership options for different socio-economic groups within their communities. With respect to infrastructure, the research has shown that the availability of financing for lot servicing (or existing serviced lots) was a decisive factor enabling the delivery of homeownership programs and contributed to households' ability to leverage the required financing for new constructions.

The top of Diagram 1 represents the ultimate objective, increasing **housing options for different socio-economic groups**. As stated, the approaches to market-based housing found in First Nations participating in this study vary. Various programs have been developed and offered to assist households becoming homeowners.

Programs Enabling Market-Based Housing on Reserves

Each of the eight First Nation communities had unique needs, challenges and assets with respect to housing and accordingly each developed different homeownership programs. Public financing from First Nations and the federal government included down payment assistance and grants for lot servicing, which in addition to individual equity, contributed to leveraging loans from financial institutions. Long-term subsidies given towards loan repayment were often associated with rent-to-own programs. Some programs had no immediate costs to the First Nation, such as issuing loan guarantees to members qualifying with financial institutions for a housing loan. In-kind assistance was also made available, such as providing an amount of carpentry and electrical work towards the construction of a home. Other programs offered in the communities studied were educational in nature and sought to provide resources and guidance to prospective homeowners on topics such as personal housing finance and home maintenance basics.

The programs were either financed by First Nations' own source revenues or through external, federal financing. Several of the First Nations that participated in the case studies used their business ventures and economic development activities as means to generate capital for their homeownership programs. Federal funding came from two main sources: 1) Indian and Northern Affairs Canada (INAC) through their Capital Facilities and Maintenance Program and; 2) Canada Mortgage and Housing Corporation (CMHC) mainly through its On-Reserve Non Profit Housing Program. INAC's Ministerial Loan Guarantees and CMHC's on-reserve loan insurance were also commonly accessed to secure debt financing.

The programs described were often combined to tailor support to community's circumstances.

Program Type	Program Details
Loan guarantees	▪ Provide security to financial institutions ▪ Loans backed by First Nations in most instances ▪ Financial instruments include First Nation accounts held in trust and loan insurance secured by Ministerial Loan Guarantees
Financing assistance	▪ Contribute to making homeownership an affordable option ▪ Assist in leveraging financing ▪ Financing sources include First Nation's own source revenues and INAC funding
Rent-to-own housing	▪ Options allowing renters to overcome possible poor credit situations and put money towards the equity of their home ▪ Contributes to promoting homeownership in the community while providing the First Nation with control over asset management ▪ Financing sources include rental revenues, First Nation's own source revenues, INAC funding and CMHC's On-Reserve Non Profit Housing Program
In-kind contribution	▪ Subsidies for carpentry and electrical work offering prospective home owners a set amount of work towards the construction of their new homes ▪ Helps reduce construction costs, contributes to providing employment opportunities locally and keeps a pool of certified trades workers in the community
Homeownership training	▪ To prepare prospective homeowners for the responsibilities associated with paying for and maintaining their homes ▪ Provided significant benefits to communities for implementing, managing and sustaining their homeownership programs

CONCLUSION - LESSONS LEARNED

This research project focused on how certain First Nations increased homeownership to help understand the process by which market-based housing may develop in First Nation communities. Based on the analysis of data collected during site visits, conclusions were reached pertaining to success factors and their inter-relationships, which have been generalized as preconditions for the development of homeownership in the First Nation communities participating in the research.

Leadership support and commitment, and community education and involvement were the most commonly found preconditions, underscoring their importance as the foundation upon which approaches to market-based housing rest. Leaders can rally the community, convene meetings and spur initiatives, but the community can also focus leaders, change behaviours and provide insight. When present, both preconditions provided a solid foundation for progressing towards market-based housing.

Appropriate governance structures that address and meet the needs, circumstances and culture of a community will ensure the oversight and accountability required for developing sustainable homeownership programs. All communities studied recognized the importance of a housing policy, as well as its evolutionary nature. The continuous development of comprehensive and detailed housing policies facilitates capacity development and clear program guidelines.

Trained housing managers and finance staff help increase administrative capacity and the realization of program delivery efficiencies and synergies. These trained resources have the skills to improve financial management, planning and project management capabilities.

Addressing barriers related to land tenure and the provision of security for housing loans enhance the access of First Nation individual households to private sector financing. Individual households are supported in surmounting these barriers by programs like loan guarantees, down payment assistance to leverage loans and other support to reduce upfront costs.

Economic development and employment opportunities enable higher rates of homeownership as they impact the ability of households to pay for their housing costs and qualify for housing loans. All eight communities participating in this research demonstrated their active engagement in developing their economy and generating employment, thus contributing to an economic environment in which market-based housing can grow and prosper.

It is possible that further research would generate other findings and as a result, lead to the identification of other preconditions leading to market-based housing. Hence, the synthesis provided in this research abstract is not intended to be a roadmap that First Nations would necessarily have to follow in order to achieve higher rates of homeownership. It may however provide helpful points of reference to be considered when discussing strategies to advance towards market-based housing and homeownership.

APPENDIX A – PARTICIPATING FIRST NATIONS

First Nation	Province	On-reserve population	Proximity and population size of nearest service
Blood Tribe	Alberta	4,177	62 km 10,302
Constance Lake	Ontario	702	40 km 5,620
Eagle Village	Quebec	270	70 km 52,771
Miawpukek	Newfoundland and Labrador	867	47 km 13,558
Millbrook	Nova Scotia	703	Less than 5 km 11,765
Opaskwayak	Manitoba	2,578	21 km 5,589
Whitecap Dakota Sioux	Saskatchewan	235	29 km 222,717
Williams Lake	British Columbia	237	Adjacent to community 10,744

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Housing Research at CMHC

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